City of San José Police and Fire Department Retirement Plan

June 30, 2012
Actuarial Valuation

Produced by Cheiron

December 2012

CHEIRON Classic Values, Innovative Advice

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LETTER OF TRANSMITTAL

December 21, 2012

Board of Administration
City of San José Police and Fire Department Retirement Plan
1737 North 1st Street, Suite 580
San José, California 95112

Dear Members of the Board:

The purpose of this report is to present the June 30, 2012 actuarial valuation of the City of San José Police and Fire Department Retirement Plan ("Plan"). This report is for the use of the Board of Administration and its auditors in preparing financial reports in accordance with applicable laws and accounting requirements.

On June 5, 2012, voters approved Measure B which would make a number of changes to the Plan. We understand that most of the changes will not be implemented until a court rules on their legality, and to date, no implementing ordinances have been adopted by the City. Consequently, the provisions of Measure B are not reflected in this valuation.

The key results of the valuation are shown in the table below.

Summary of Key Valuation Results

Valuation Date	**6/30/2012**	**6/30/2011**
Discount Rate	7.25%	7.50%
Actuarial Liability (AL)	$ 3,430.3	$ 3,196.0
Actuarial Value of Assets (AVA)	$ 2,703.5	$ 2,685.7
Unfunded Actuarial Liability (UAL)	$ 726.8	$ 510.3
AVA Funded Ratio	78.8%	84.0%
Market Value of Assets (MVA)	$ 2,578.9	$ 2,627.7
MVA Funded Ratio	75.2%	82.2%
Fiscal Year Ending	**6/30/2014**	**6/30/2013**
Aggregate Contribution Rates		
Member		
Normal Cost Rate	11.6%	11.0%
UAL Rate	0.1%	0.1%
Total Member Rate	11.7%	11.2%
City		
Normal Cost Rate	34.7%	33.4%
UAL Rate	35.8%	24.3%
Total City Rate	70.5%	57.7%
Expected Payroll	$ 188.0	$ 190.7
City Contribution Amounts		
Beginning of Year	$ 128.0	$ 106.1
Middle of Year	$ 132.6	$ 110.1

Dollar amounts in millions

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The City contribution rates and amounts shown above are before adjusting for the offset due to the charge to the SRBR. This charge reduces the City's contribution rate for Fiscal Year Ending (FYE) in 2013 by 0.46% and approximately $0.8 million as of the beginning of the fiscal year, and reduces the City's contribution rate for FYE 2014 by 0.82% and approximately $1.5 million as of the beginning of the fiscal year.

At its December 2012 meeting, the Board reduced its investment return assumption from the 7.50% that was used in the prior valuation to 7.25%. The reduction in the assumption increased the measure of actuarial liability by approximately $108 million and the normal cost rate by approximately 2.5% of payroll. More details on the impact of this change and the experience during the year are found in the remainder of the report.

In preparing our report, we relied on information (some oral and some written) supplied by the City of San José Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice #23.

We hereby certify that, to the best of our knowledge, this report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This actuarial valuation report was prepared for the Board of Administration for the purposes described herein and for the use by the plan auditor in completing an audit related to the matters herein. This actuarial valuation report is not intended to benefit any third party, and Cheiron assumes no duty of liability to any such party.

Sincerely,
Cheiron

Gene Kalwarski, FSA, FCA, EA, MAAA
Principal Consulting Actuary

William R. Hallmark, ASA, FCA, EA, MAAA
Consulting Actuary

SECTION I
BOARD SUMMARY

The primary purpose of this actuarial valuation is to report, as of the valuation date, on the following:

- The financial condition of the City of San José Police and Fire Department Retirement Plan,
- Past and expected trends in the financial condition of the Plan,
- The Members' and City's contribution rates for the Fiscal Year Ending June 30, 2014, and
- Information required by the Governmental Accounting Standards Board (GASB).

The principal valuation results are summarized in this section, including a brief description of the basis upon which the contributions were determined and an examination of the current financial condition of the Plan. In addition, the key historical trends and projected financial outlook for the Plan are reviewed.

A. Valuation Basis

Member contribution rates are set equal to the sum of:

- A portion ($3/11^{th}$) of the Entry Age Normal Cost Rate (excluding reciprocity),
- A historical share of the assumed administrative expenses, and
- A portion of the UAL Rate attributable to certain benefit improvements.

The Plan's funding policy sets the City's contribution rates equal to the sum of:

- A portion ($8/11^{th}$) of the Entry Age Normal Cost Rate (excluding reciprocity),
- The Reciprocity Rate which is the prefunding of the liability for reciprocal benefits with certain other California public pension plans,
- A historical share of the assumed administrative expenses,
- The assumed annual cost of the SRBR, and
- The remaining portion of the UAL Rate.

Beginning with the June 30, 2011 valuation, any changes in methods or assumptions are amortized over a closed 20-year period, and all other portions of the UAL are amortized over a closed 16-year period from the valuation in which they are first recognized.

SECTION I
BOARD SUMMARY

B. Current Financial Condition

On the following pages, we summarize the key results of the June 30, 2012 valuation and how they compare to the results from the June 30, 2011 valuation.

1. Membership:

As shown in Table I-1 below, total membership declined 0.6% from 2011 to 2012. Terminated vested membership decreased by 27.2% due to the large number of terminations that happened just before the June 30, 2011 valuation and who subsequently took a refund of contributions. There was also a small reduction in total payroll caused by a decrease in both the number of overall active members and average pay per member.

Table I-1
Total Membership

Item	June 30, 2012	June 30, 2011	% Change
Active Members			
Police	1,076	1,122	-4.1%
Fire	642	613	4.7%
Total Active Members	1,718	1,735	-1.0%
Terminated Vesteds	166	228	-27.2%
Service Retirees	861	824	4.5%
Disabled Retirees	829	812	2.1%
Beneficiaries	252	249	1.2%
Total Members	3,826	3,848	-0.6%
Active Member Payroll			
Police	$ 116.5	$ 121.7	-4.3%
Fire	71.5	69.0	3.6%
Total Payroll	$ 188.0	$ 190.7	-1.5%
Average Pay per Active Member			
Police	$ 108,228	$ 108,499	-0.2%
Fire	$ 111,378	$ 112,546	-1.0%
Total Average Pay	$ 109,405	$ 109,929	-0.5%

Total payroll amounts in millions

2. Assets and Liabilities:

Table I-2 on the following page compares the assets, liabilities, UAL, and funding ratios between June 30, 2012 and June 30, 2011. The key results shown in Table I-2 indicate that the total actuarial liability increased by 7.3% and the market value of assets

decreased by 1.9%. The Plan employs an asset smoothing method which dampens investment market volatility. For this year the smoothed value of assets (called the actuarial value of assets) increased by 0.7%. The ratio of the actuarial value of assets to the market value of assets increased from 102% to 105%, indicating that the deferred losses are greater than the deferred gains. Finally, due to the investment loss and the reduction of the investment return assumption from 7.5% to 7.25%, the overall funding deficit (actuarial value of assets less actuarial liability) increased from $510.3 million to $726.8 million, resulting in a decrease in the funding ratio from 84.0% to 78.8%. Based on the market value of assets, the funding ratio decreased from 82.2% to 75.2%.

Table I-2
Assets and Liabilities

Item	June 30, 2012	June 30, 2011	% Change
Actuarial Liability			
Actives	$ 1,087.5	$ 1,022.0	6.4%
Terminated Vesteds	28.5	26.7	6.9%
Service Retirees	1,319.3	1,210.1	9.0%
Disabled Retirees	865.5	812.6	6.5%
Beneficiaries	96.9	91.3	6.1%
SRBR Balance	32.5	33.4	-2.7%
Total Actuarial Liability	$ 3,430.3	$ 3,196.0	7.3%
Market Value of Assets	$ 2,578.9	$ 2,627.7	-1.9%
Actuarial Value of Assets	$ 2,703.5	$ 2,685.7	0.7%
Unfunded Actuarial Liability	$ 726.8	$ 510.3	42.4%
Funding Ratio – Market Value	75.2%	82.2%	-8.6%
Funding Ratio – Actuarial Value	78.8%	84.0%	-6.2%

Amounts in millions

3. Contributions:

Table I-3 shows sources for the change in the City contribution rate from the rate that was calculated in the prior report and the rate that was expected to be calculated in this report. The plan experience slightly reduced the City's contribution compared to what had been expected based on the prior valuation, but the change in the investment return assumption increased the contribution by 10 million dollars.

SECTION I
BOARD SUMMARY

Table I-3
Reconciliation of Changes in Contribution Rates and Amounts

	Member Rate	City Normal Cost	City UAL Rate	City Total Rate	Projected Payroll	BOY City Contribution Amount
1. FYE 2013 Contribution	11.2%	33.4%	24.3%	57.7%	$ 190.7	$ 106.1
2. Expected FYE 2014 Contribution	11.2%	33.7%	30.6%	64.3%	$ 190.7	$ 118.2
3. Changes Due to Plan Experience						
a. Investment experience	0.0%	0.0%	2.8%	2.8%	$ 190.7	$ 5.1
b. SRBR	0.0%	-0.3%	-0.4%	-0.6%	$ 190.7	$ (1.2)
c. Demographic experience	-0.2%	-0.4%	-1.5%	-1.9%	$ 190.7	$ (3.6)
d. Payroll Change	0.0%	0.0%	0.5%	0.5%	$ 188.0	$ (0.9)
e. Assumption Change	0.7%	1.8%	3.8%	5.6%	$ 188.0	$ 10.3
f. Subtotal	0.5%	1.1%	5.2%	6.3%	$ 188.0	$ 9.8
4. FYE 2014 Contribution	11.7%	34.7%	35.8%	70.5%	$ 188.0	$ 128.0

Dollar amounts in millions

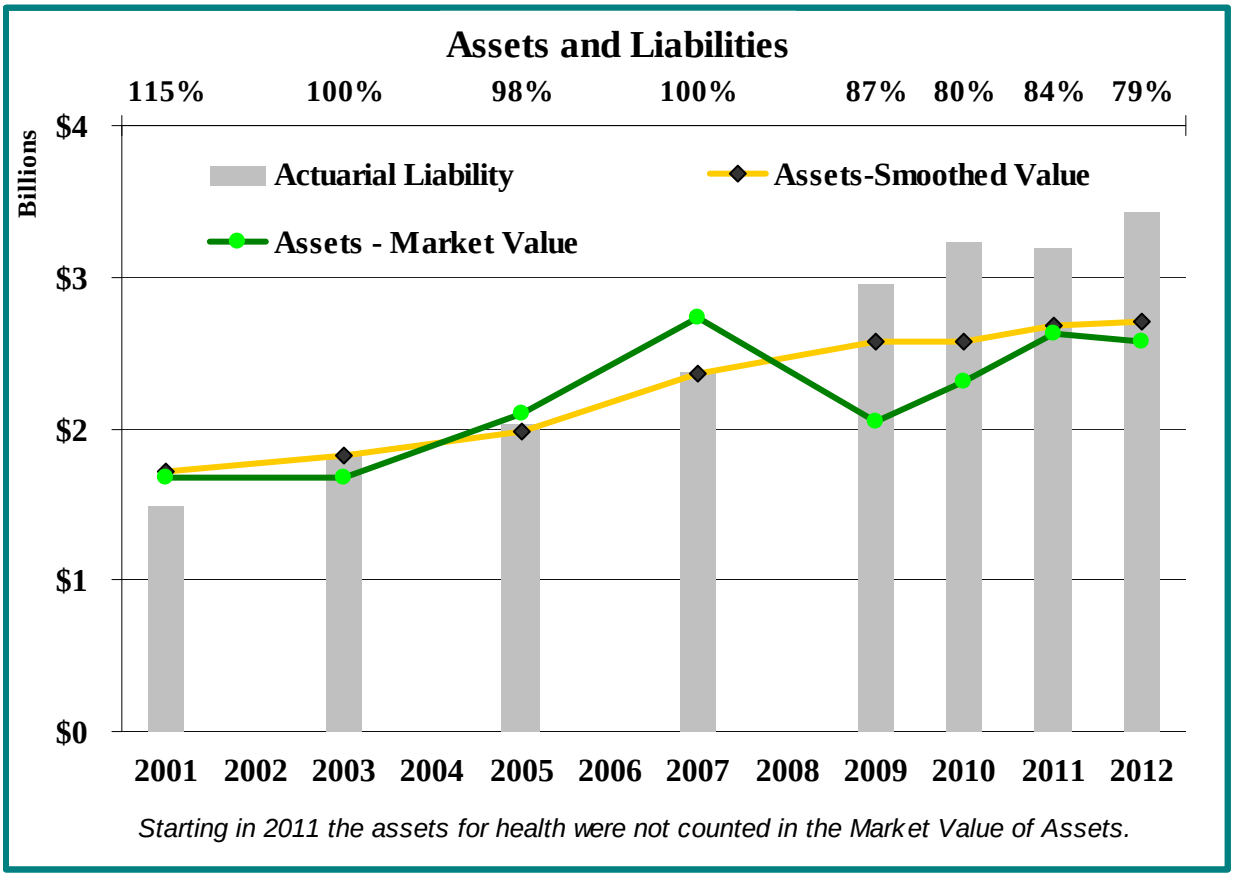
The contribution rates and amounts shown above are prior to adjustment for the offset in City contribution rates and amounts due to the charge to the SRBR. This charge applies whenever the City's contribution rate increases due to poor investment performance, and it reduces the City's contribution rate for FYE 2013 by 0.46% and approximately $0.8 million, and reduces the City's contribution rate for FYE 2014 by 0.82% and approximately $1.5 million. In Section IV of this report, we provide more detail on the development of this contribution rate.

C. Historical Trends

Despite the fact that most of the attention given to the valuation is with respect to the most recently computed unfunded actuarial liability, funding ratio, and contribution rates, it is important to remember that each valuation is merely a snapshot of the long-term progress of a pension fund. It is more important to judge a current year's valuation result relative to historical trends, as well as trends expected into the future.

The chart below shows the historical trends for assets (both market and smoothed) versus the actuarial liability, and also shows the progress of the funding ratios since 2001. From 2001 to 2012, (with the exceptions of 2007 and 2011), the funding ratio has declined primarily because the plan has experienced lower than expected investment returns and has reduced its assumption of future investment returns.

Assets and Liabilities 2001-2012



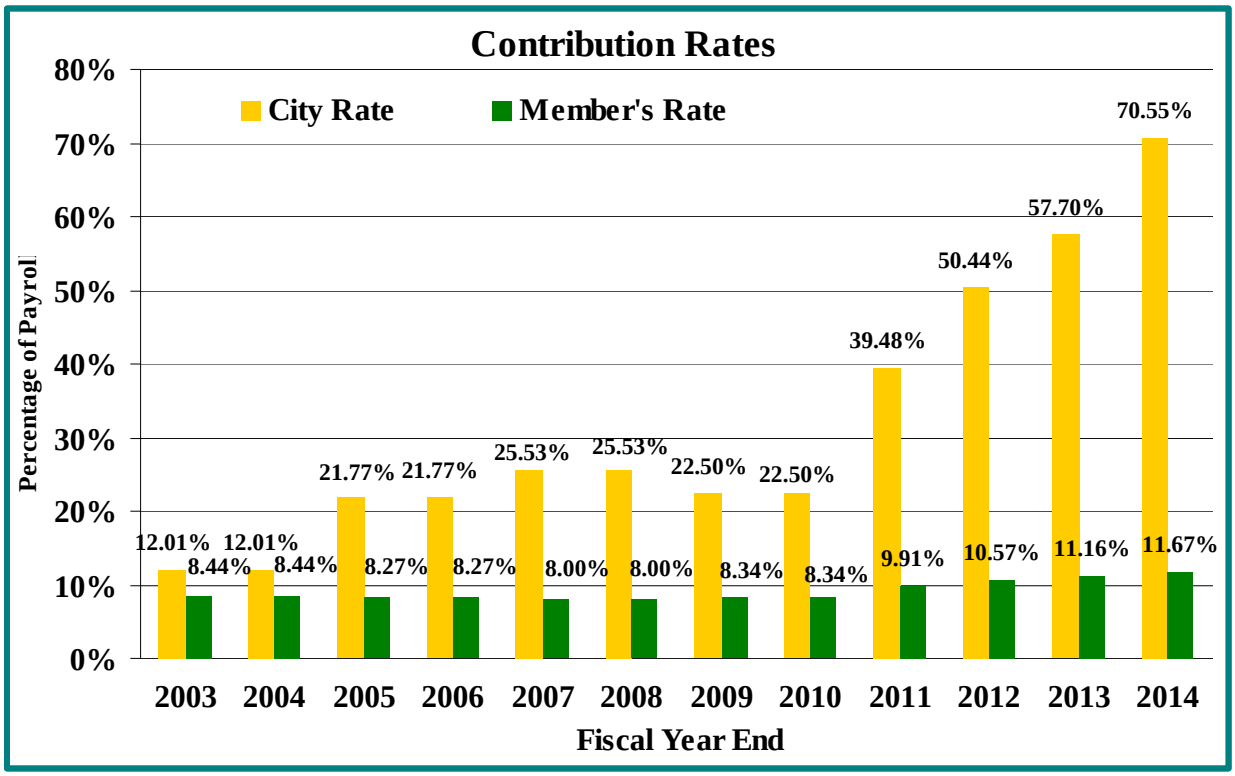
	2001	2003	2005	2007	2009	2010	2011	2012
Funded Ratio	114.8%	100.2%	97.8%	99.7%	86.7%	79.8%	84.0%	78.8%
UAL/(Surplus)	$ (221.1)	$ (3.1)	$ 44.3	$ 6.6	$ 393.9	$ 653.8	$ 510.3	$ 726.8

Amounts in millions

SECTION I
BOARD SUMMARY

The chart below shows the historical trends for the Plan's contribution rates since the Fiscal Year Ending June 30, 2003. All information shown prior to the Fiscal Year Ending June 30, 2013 was calculated by the prior actuary.

Employer and Member Contribution Rates for FYE 2003 - 2014

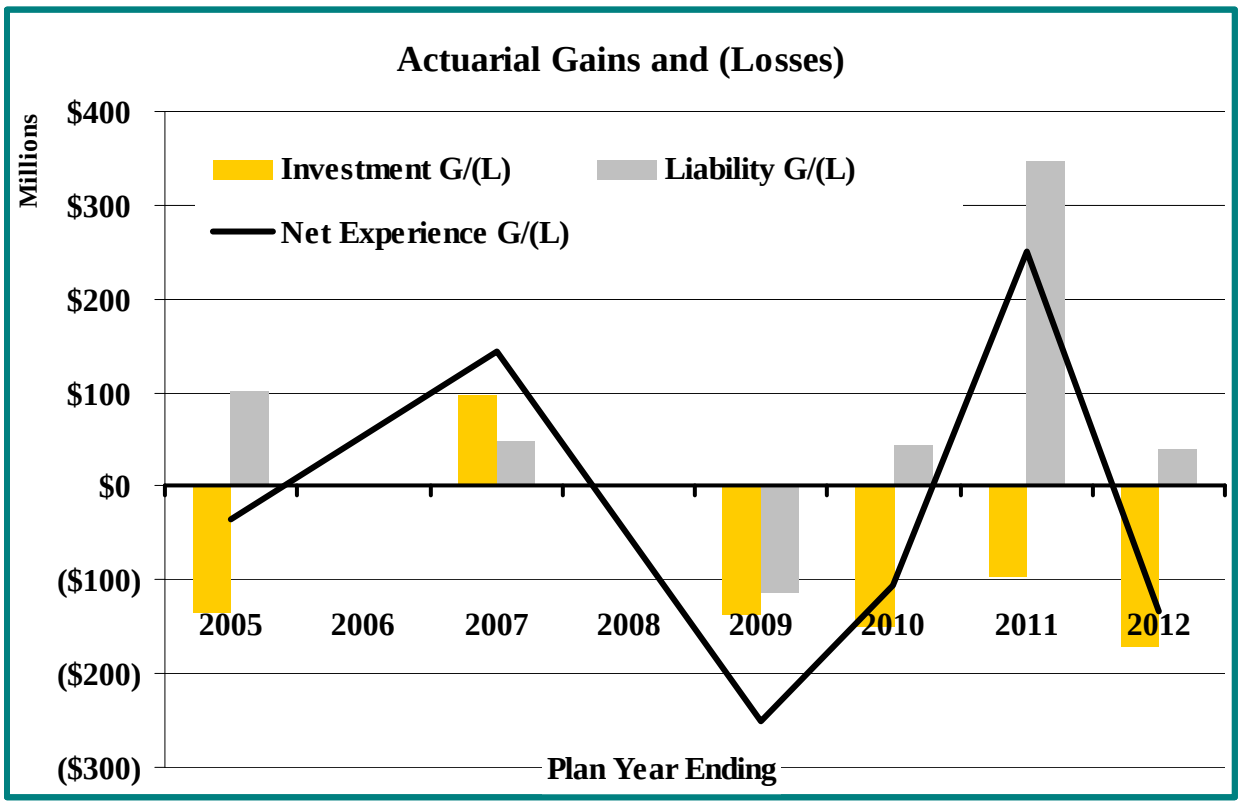


The key information in this chart is the increase in the employer contribution rate since FYE 2010. This increase is largely due to the poor investment earnings during 2008 and 2009, but lower discount rates were also adopted effective for contribution rates in FYE 2012, 2013, and 2014.

The chart on the following page represents the pattern of the Plan's actuarial gains and losses, broken into the investment and liability components. The chart does not include any changes in the Plan's assets and liabilities attributable to changes to methods, procedures or assumptions.

SECTION I
BOARD SUMMARY

SJPF Historical Gain/(Loss) 2005-2012



The key insights from this chart are:

- Investment losses (gold bars) in 2005 are partially offset by investment gains from 2006 and 2007. From 2008 to 2012, there were additional investment losses. Since the actuarial value of assets only recognizes a portion of the recent market losses, additional investment losses on the actuarial value of assets are expected next year.

- On the liability side, five of the six valuations showed actuarial gains with 2009 as the only exception. The actuarial gain in 2012 is primarily due to a combination of salary and termination experience offset somewhat by retirement experience.

D. Projected Financial Trends

The analysis of projected financial trends is an important part of this valuation. In this Section, projections of the June 30, 2012 valuation results are used to illustrate the future outlook for the Plan in terms of benefit security (assets compared to liabilities) and the expected progression of contributions.

In the charts that follow, we project assets and liabilities, the pay down of UAL, and City contributions on two different bases:

1) Assuming no gains or losses compared to the assumptions (i.e., 7.25% return for 2012-13 and each and every year that follows along with the assumed transfer to the SRBR in each year), and

2) Assuming returns shown in the table below. These are rates of return that vary each year but over the projection period equal on average the assumed 7.25% return. We do this in order to illustrate the impact of volatility because the Plan's returns will never be level each and every year.

FYE	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return	20.0%	8.0%	3.0%	20.0%	-4.0%	18.0%	13.0%	9.0%	-7.0%	16.0%
FYE	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Return	9.0%	-8.0%	8.0%	13.0%	16.0%	-8.0%	-16.0%	30.0%	25.0%	-1.0%

Please note that the investment returns shown above were selected solely to illustrate the impact of investment volatility on the pattern of funded status and City contribution rates and amounts. They are not intended to be predictive of actual future contribution rates or funded status or even to represent a realistic pattern of investment returns.

SECTION I
BOARD SUMMARY

Projection Set 1: Assets and Liabilities

The chart below shows asset measures (green and orange lines) compared to the actuarial liability (gray bars). At the top of each chart is the progression of funding ratios. The key insight from this chart is the steady projected improvement in funded ratios in the first chart, and how varying investment returns can impact the progression of funding ratios. In addition, even though the varying returns produce the same average return, the funded status at the end of the projection is only 90% compared to 100% with the 7.25% return each year.

Chart 1: Projection of Assets and Liabilities, 7.25% return each year

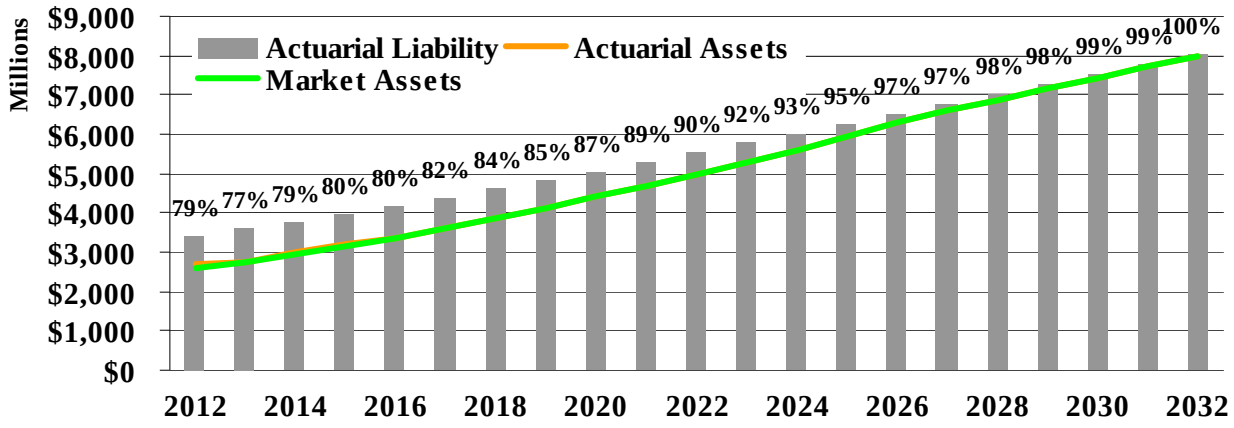
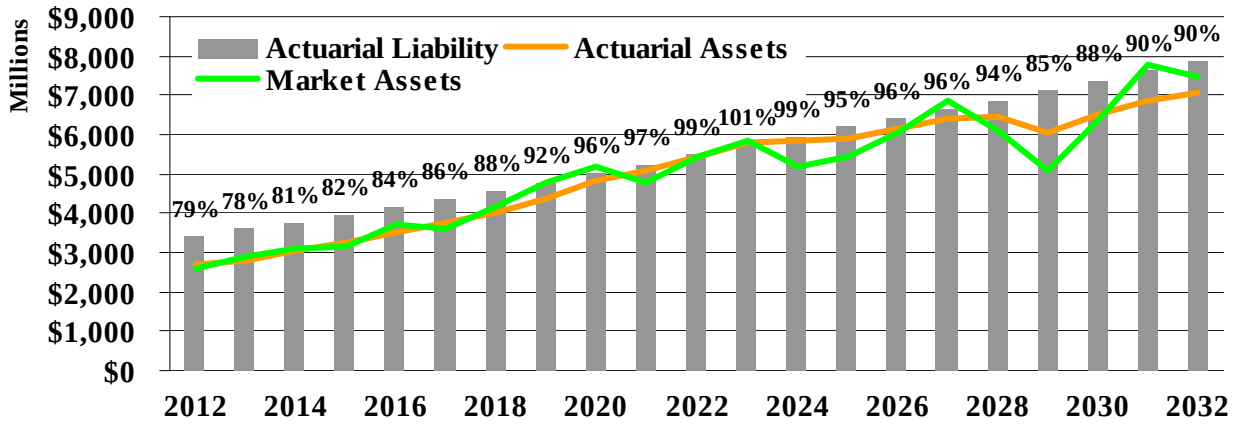


Chart 2: Projection of Assets and Liabilities, varying returns averaging 7.25% over time



SECTION I
BOARD SUMMARY

Projection Set 2: Projected Employer Contribution Rate

The chart below shows projected member contribution rates (teal bars) and City contribution rates (gold bars) compared to the similar projection based on the 2011 valuation (red line). City contribution rates are expected to increase over the next several years as the 2008-09 and 2011-12 investment losses are fully recognized. The increase in rates compared to the 2011 valuation are primarily due to the change in the discount rate and the investment losses for 2011-12. The significant decrease in contribution rates and amounts in 2027 and 2028 is due to the completion of the amortization of the actuarial losses and assumption changes recognized in the 2009 and 2010 actuarial valuations.

Chart 1: 7.25% return each year – percentage of pay

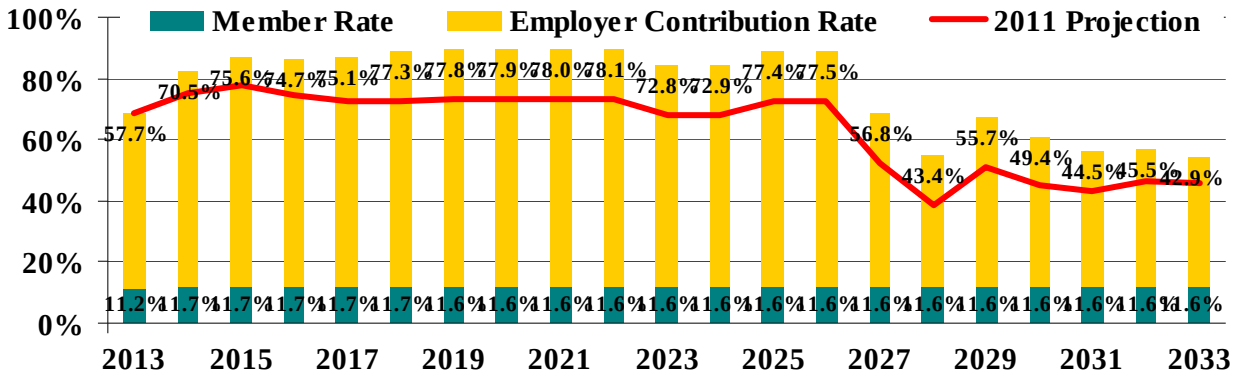
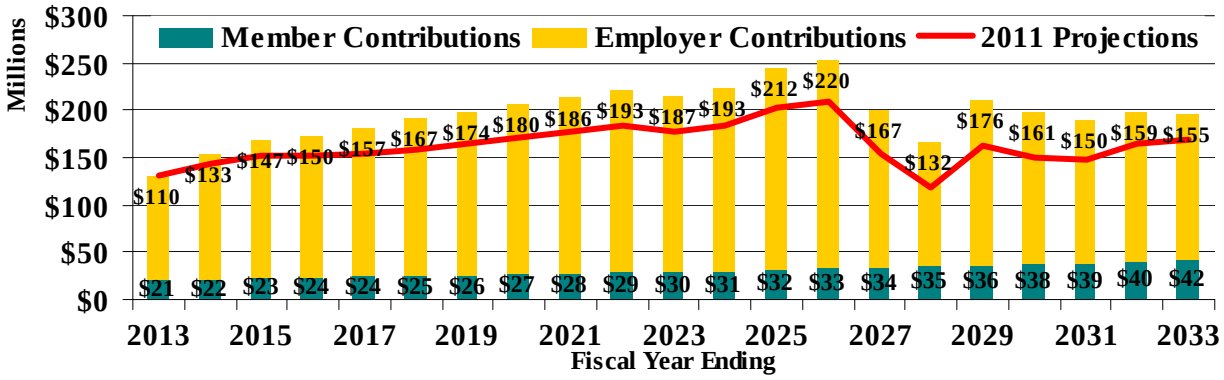


Chart 2: 7.25% return each year – dollar contribution amounts



In the graph above, the City dollar contribution amount for FYE 2013 is the actual City contribution made in July, 2012, adjusted to the middle of the fiscal year with interest plus the actual amount credited back to the general reserve from the SRBR.

SECTION I
BOARD SUMMARY

Chart 3: varying returns averaging 7.25% over time – percentage of pay

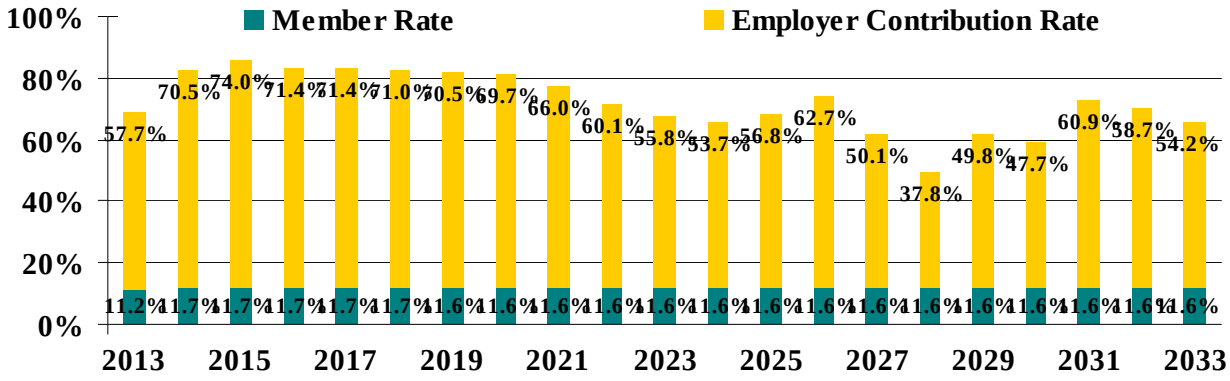
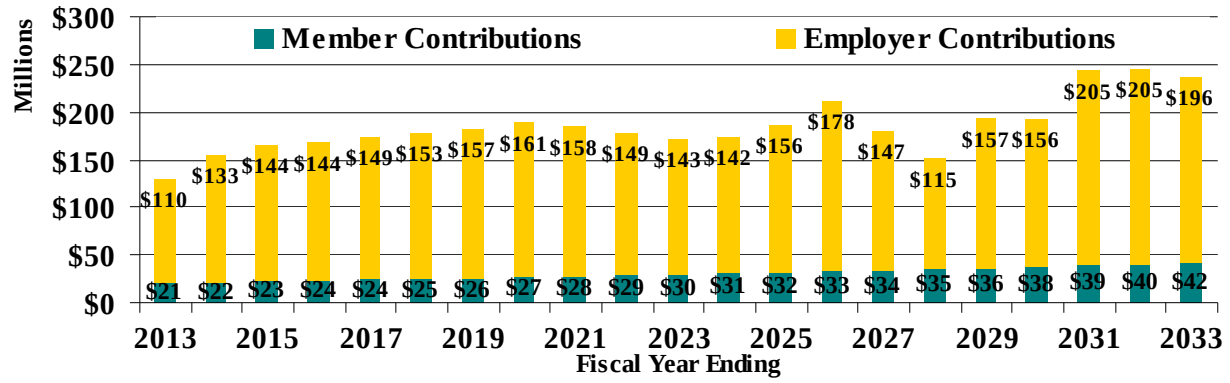


Chart 4: varying returns averaging 7.25% over time – dollar contribution amounts



Charts 3 and 4 illustrate the effect of varying investment returns on the projected contribution rates and amounts. The asset smoothing and amortization methods smooth much of the volatility, but significant contribution volatility remains.

SECTION II
ASSETS

The Plan uses and discloses two different asset measurements which are presented in this section of the report: market value and actuarial value of assets. The market value represents, as of the valuation date, the value of the assets if they were liquidated on that date. The actuarial value of assets is a value that smoothes annual investment return performance over multiple years to reduce the impact of short-term investment volatility on City contribution rates.

On the following pages we present detailed information on the Plan's assets:

A. Statement of changes in the market value of assets during the year,
B. Development of the actuarial value of assets, and
C. Statement of changes in the Supplemental Retiree Benefit Reserve.

A. Market Value of Assets

Table II-1 shows sources for the change in the market value of assets.

Table II-1

Change in Market Value of Assets

	June 30, 2012			June 30, 2011
	Retirement	COLA	Total	Total
Market Value, Beginning of Year	$ 1,762,248	$ 865,479	$ 2,627,728	$ 2,264,050
Contributions				
Member	$ 13,352	$ 5,993	$ 19,345	$ 29,629
City	70,960	50,049	121,008	77,918
Total	$ 84,312	$ 56,042	$ 140,353	$ 107,547
Net Investment Earnings[1]	$ (22,427)	$ (11,449)	$ (33,877)	$ 393,250
Benefit Payments	$ 116,543	$ 35,177	$ 151,720	$ 137,120
Administrative Expenses	$ 2,453	$ 1,102	$ 3,556	N/A
Market Value, End of Year	$ 1,705,136	$ 873,793	$ 2,578,929	$ 2,627,727

Amounts in thousands

[1] Gross investment earnings less investment expenses in 2012 and less investment and administrative expenses in 2011.

The net investment earnings represent approximately a -1.3% return on the market value of assets compared to an assumed return of 7.5%.

SECTION II
ASSETS

B. Actuarial Value of Assets

To determine on-going contribution amounts, most pension funds use an actuarial value of assets that smoothes year-to-year market value returns in order to reduce the volatility of contribution rates.

The actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return (7.50% for 2011-12, 7.75% for 2010-11, 8.00% for prior years) over a five-year period. The dollar amount of the expected return on the market value of assets is determined using the actual contributions and benefit payments during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss. Table II-2 below shows the gains and losses for the last four years and the portion of each gain or loss that is not recognized in the current actuarial value of assets. These deferred amounts will be recognized in future years.

Table II-2

Development of Actuarial Value of Assets[1]

	June 30, 2012		
	Retirement	**COLA**	**Total**
Market Value of Assets	$1,705,135,747	$ 873,792,861	$ 2,578,928,608
Gains / (Losses)			
Current Year	$ (158,481,339)	$ (80,101,035)	$ (238,582,375)
Prior Year	146,320,079	69,514,959	215,835,038
2nd Prior Year	102,414,358	48,370,992	150,785,350
3rd Prior Year[2]	(419,612,465)	(198,185,797)	(617,798,262)
Deferred Gains / (Losses)			
Current Year (80% Deferred)	$ (126,785,071)	$ (64,080,828)	$ (190,865,900)
Prior Year (60% Deferred)	87,792,047	41,708,975	129,501,023
2nd Prior Year (40% Deferred)	40,965,743	19,348,397	60,314,140
3rd Prior Year (20% Deferred)	(83,922,493)	(39,637,159)	(123,559,652)
Total	$ (81,949,774)	$ (42,660,616)	$ (124,610,390)
Preliminary Actuarial Value of Assets	$ 1,787,085,521	$ 916,453,477	$ 2,703,538,998
Minimum Actuarial Value of Assets (80% of Market Value)	$1,364,108,598	$ 699,034,289	$ 2,063,142,887
Maximum Actuarial Value of Assets (120% of Market Value)	$ 2,046,162,897	$ 1,048,551,433	$ 3,094,714,330
Actuarial Value of Assets	$1,787,085,521	$ 916,453,477	$ 2,703,538,998

[1] Excludes health assets.
[2] Adjusted to reflect immediate recognition of amount outside temporary one year 130% corridor.

On the basis of the smoothed actuarial value of assets, the return for the year ending June 30, 2012 was approximately 1.2%, slightly more than the return on the market value of assets. This difference is largely due to the recognition of the deferred gains for 2010 and 2011.

C. Supplemental Retiree Benefit Reserve (SRBR)

The SRBR is a reserve within the Retirement Fund that is used to supplement benefits provided to retirees and beneficiaries under the Plan. As such, the balance in the SRBR is treated both as an asset and as a liability of the Plan.

Each year, ten percent of excess earnings are transferred to the SRBR. However, since the actual return on the actuarial value of assets (1.2%) was less than the expected return (7.5%), there are no excess earnings this year. The existing balance in the SRBR is credited with approximately 1.2% earnings, and because the City's contribution rate for 2011-12 had increased due to poor investment performance, a charge was made to the SRBR transferring approximately $1.3 million to the regular retirement fund and the COLA fund. Table II-3 below summarizes the changes to the SRBR this year.

Table II-3

Changes in Supplemental Retiree Benefit Reserve

	June 30, 2012	June 30, 2011
SRBR Balance, beginning of year	$ 33,416,870	$ 33,343,364
Charge to SRBR for poor investment earnings	(1,285,087)	(1,207,958)
Interest credited	383,943	1,281,464
Excess earnings transferred	0	0
Benefit distributions	0	0
SRBR Balance, end of year	$ 32,515,726	$ 33,416,870

The Board is to make annual distributions from the SRBR, but cannot reduce the principal of the SRBR. Normally, these distributions are equal to the regular earnings credited on the SRBR principal. However, these distributions have been suspended, and Measure B which voters approved in June 2012, would eliminate the SRBR if it is implemented. Table II-4 below shows the regular interest credits that have not been distributed, but potentially could be distributed once the suspension expires without reducing the principal in the SRBR.

SECTION II
ASSETS

Table II-4

SRBR Regular Interest Credits Not Yet Distributed

Fiscal Year	Interest Credit
2008-09	$ 296,147
2009-10	719,742
2010-11	1,281,464
2011-12	383,943
Total	$ 2,681,296

When the City's contribution rate increases due to poor investment earnings, there is a charge to the SRBR that partially offsets the City's rate increase. Based upon the June 30, 2011 valuation, the City's contribution rate is offset for 2012-13 by 0.46% of payroll and $848,379 is transferred from the SRBR to the regular Retirement and COLA reserves. Table II-5 below shows the calculation of the charge to the SRBR and the offset to the City's contribution rate for the 2013-14 fiscal year.

Table II-5

Calculation of Charge to SRBR for FYE 2014

1.	Increase in UAL due to investment loss in 2011-12	$ 172,759,413
2.	Amortization factor	8.637%
3.	Increase in City's dollar contribution as of July 1, 2013 [1 ÷ 2]	$ 14,921,650
4.	SRBR balance as of June 30, 2012	$ 32,515,726
5.	Charge to SRBR on July 1, 2013 [minimum of 10% of 3 and 5% of 4]	$ 1,492,165
6.	Projected 2013-14 payroll	$ 187,958,523
7.	Decrease in City's contribution rate for 2013-14 [(5 x 1.0725^0.5) ÷ 6]	0.82%

SECTION III
LIABILITIES

This section presents detailed information on liabilities for the Plan, including:

- Present value of future benefits,
- Normal cost
- Actuarial liability, and
- Analysis of changes in the unfunded actuarial liability during the year.

A. Present Value of Future Benefits

The present value of future benefits represents the expected amount of money needed today to fully pay off all benefits both earned as of the valuation date and those to be earned in the future by current plan participants under the current plan provisions. Table III-1 below shows the present value of future benefits as of June 30, 2012 and June 30, 2011.

Table III-1

Present Value of Future Benefits

	June 30, 2012			June 30, 2011
	Retirement	COLA	Total	Total
Actives				
Retirement	$ 877,768	$ 364,847	$ 1,242,615	$ 1,162,588
Termination	27,440	10,997	38,437	36,382
Death	11,780	4,814	16,594	15,668
Disability	428,089	178,410	606,500	561,008
Total Actives	$ 1,345,077	$ 559,069	$ 1,904,146	$ 1,775,645
Service Retirees	799,775	519,564	1,319,339	1,210,090
Disabled Retirees	464,735	400,795	865,529	812,559
Beneficiaries	48,086	48,809	96,895	91,285
Deferred Vested	18,732	9,799	28,532	26,694
SRBR			32,516	33,417
Total	$2,676,405	$1,538,036	$4,246,957	$ 3,949,689

Amounts in thousands

SECTION III
LIABILITIES

B. Normal Cost

Under the Entry Age (EA) actuarial cost method, the present value of future benefits for each individual is spread over the individual's expected working career under the Plan as a level percentage of the individual's expected pay. The normal cost rate is determined by taking the value, as of entry age into the Plan, of each member's projected future benefits. This value is then divided by the value, also at entry age, of the each member's expected future salary. The normal cost rate is multiplied by current salary to determine each member's normal cost. The normal cost of the Plan is the sum of the normal costs for each individual in the Plan. The normal cost represents the expected amount of money needed to fund the benefits attributed to the next year of service under the Entry Age actuarial funding method. Table III-2 below shows the EA normal cost as of June 30, 2012 and June 30, 2011.

Table III-2

Entry Age Normal Cost

	June 30, 2012			June 30, 2011
	Retirement	COLA	Total	Total
Actives				
Retirement	$ 30,669,311	$ 12,723,943	$ 43,393,254	$ 41,509,870
Termination	1,908,781	323,307	2,232,088	1,999,140
Death	780,883	373,962	1,154,845	1,223,522
Disability	19,117,431	8,316,954	27,434,385	27,209,441
Reciprocity	112,503	316,474	428,977	438,525
Total Normal Cost	$ 52,588,909	$ 22,054,640	$ 74,643,549	$ 72,380,498
Expected payroll for current actives	$ 179,509,150	$ 179,509,150	$ 179,509,150	$ 182,035,530
EA Normal Cost Rate	29.30%	12.29%	41.58%	39.76%

Table III-3 below shows the EA normal cost as of June 30, 2012 separated between Police and Fire members.

Table III-3

Entry Age Normal Cost by Group

	June 30, 2012		
	Police	Fire	Total
Actives			
Retirement	$ 29,606,559	$ 13,786,695	$ 43,393,254
Termination	1,377,093	854,995	2,232,088
Death	692,887	461,958	1,154,845
Disability	14,155,719	13,278,666	27,434,385
Reciprocity	280,270	148,707	428,977
Total Actives	$ 46,112,528	$ 28,531,021	$ 74,643,549
Expected payroll for current actives	$ 111,204,844	$ 68,304,306	$ 179,509,150
EA Normal Cost Rate	41.47%	41.77%	41.58%

In addition to the EA normal cost, administrative expenses and the expected annual cost of the SRBR are added to get the total normal cost. Table III-4 below develops these additions to the EA normal cost rate.

Table III-4

Administrative Expense and SRBR Normal Cost

1.	Assumed administrative expenses for FYE 2014	$ 3,000,000
2.	SRBR normal cost [0.22% of market value of assets]	$ 5,875,714
3.	Projected payroll for FYE 2014	$ 187,958,523
4.	Administrative expense and SRBR normal cost rate [(1 + 2) ÷ 3]	4.72%
5.	EA normal cost rate	41.58%
6.	Total normal cost rate [4 + 5]	46.30%

C. Actuarial Liability

The actuarial liability represents the expected amount of money needed today to pay for benefits attributed to service prior to the valuation date under the EA method. It is the difference between the present value of future benefits and the present value of future normal costs. Table III-5 below shows the actuarial liability as of June 30, 2012 and June 30, 2011.

Table III-5

Actuarial Liability

	June 30, 2012			June 30, 2011
	Retirement	COLA	Total	Total
Actives				
Retirement	$ 537,306	$ 223,530	$ 760,836	$ 719,175
Termination	5,767	4,198	9,965	11,880
Death	3,746	987	4,733	3,851
Disability	222,534	89,429	311,963	287,057
Total Actives	$ 769,353	$ 318,144	$ 1,087,497	$ 1,021,963
Service Retirees	799,775	519,564	1,319,339	1,210,090
Disabled Retirees	464,735	400,795	865,529	812,559
Beneficiaries	48,086	48,809	96,895	91,285
Deferred Vested	18,732	9,799	28,532	26,694
SRBR			32,516	33,417
Total Actuarial Liability	$2,100,681	$1,297,111	$3,430,308	$3,196,007

Amounts in thousands

SECTION III
LIABILITIES

Table III-6 below shows the actuarial liability as of June 30, 2012 separated between Police and Fire members.

Table III-6

Actuarial Liability by Group

	June 30, 2012		
	Police	**Fire**	**Total**
Actives			
Retirement	$ 540,912	$ 219,925	$ 760,836
Termination	6,093	3,872	9,965
Death	2,763	1,970	4,733
Disability	160,723	151,239	311,963
Total Actives	$ 710,490	$ 377,006	$1,087,497
Service Retirees	929,887	389,452	1,319,339
Disabled Retirees	48,490	48,405	96,895
Beneficiaries	398,370	467,160	865,529
Deferred Vested	23,928	4,603	28,532
SRBR			32,516
Total Actuarial Liability	$2,111,166	$1,286,626	$3,430,308

Amounts in thousands

The difference between the actuarial liability and the actuarial value of assets is the unfunded actuarial liability.

SECTION III
LIABILITIES

D. Analysis of Change in Unfunded Actuarial Liability (UAL)

The UAL of any retirement plan is expected to change at each subsequent valuation for a variety of reasons. In each valuation, we report on those elements of change in the UAL that have particular significance or could potentially affect the long-term financial outlook of a retirement plan. Table III-7 below develops the expected UAL and identifies the primary sources for changes in the UAL since the last valuation.

Table III-7

Development of Experience Gain / (Loss)

Item		Amount
1.	Unfunded actuarial liability, June 30, 2011	$ 510,285,510
2.	Interest	38,271,413
3.	Expected unfunded actuarial liability payment with interest	(62,852,359)
4.	Change in assumptions	107,736,491
5.	Expected unfunded actuarial liability, June 30, 2012 (1 + 2 – 3 + 4)	$ 593,441,055
6.	Actual unfunded actuarial liability, June 30, 2012	726,768,546
7.	Difference (5 – 6)	$ (133,327,491)
a.	Portion due to investment experience	$ (172,759,413)
b.	Portion due to SRBR	7,546,981
c.	Portion due to salary experience	17,634,216
d.	Portion due to benefit service data	5,401,289
e.	Portion due to termination, mortality and disability experience	16,940,862
f.	Portion due to retirement experience	(10,301,137)
g.	Portion due to other experience	2,209,710
h.	Total	$ (133,327,491)

SECTION IV
CONTRIBUTIONS

In the process of evaluating the financial condition of any pension plan, the actuary analyzes the assets and liabilities to determine what level (if any) of contributions are needed to achieve and maintain an appropriate funded status of a plan. Typically, the actuarial process will use an actuarial funding method that will result in a pattern of contributions that are both stable and predictable.

Under the method employed for the Plan, there are two components to the total contribution: the normal cost and the unfunded actuarial liability contribution. The normal cost rate was developed in Section III. This section develops the UAL contribution rate and divides the contributions between the members and the City.

The UAL is composed of experience gains and losses, assumption changes and plan provision changes. Each component is amortized from the valuation date in which it was first recognized. Table IV-1 below shows the outstanding balance, remaining period and amortization payments for each component of the UAL as of June 30, 2012.

Table IV-1

UAL Amortization

Source	Date	Outstanding Balance Retirement	Outstanding Balance COLA	Remaining Period	Amortization Payment Retirement	Amortization Payment COLA
1996 Ben Improvement	6/30/1996	$ (1,475,946)	$ 2,250,586	5.0	$ (339,517)	$ 517,710
UAL	6/30/2003	4,972,437	(7,582,194)	5.0	1,143,827	(1,744,159)
Experience Loss	6/30/2005	(75,125,075)	114,554,073	9.0	(10,278,633)	15,673,318
Police Ben Improvement	6/30/2005	23,282,021	9,014,676	9.0	3,185,452	1,233,390
Rate Increase Delay	12/17/2006	154,807	59,940	9.5	20,307	7,863
Fire Ben Improvement	6/30/2007	22,471,943	8,541,986	11.0	2,601,255	988,783
Experience Gain	6/30/2007	(89,341,250)	(40,102,044)	11.0	(10,341,756)	(4,642,039)
Assumption Change	6/30/2007	19,580,418	10,512,530	11.0	2,266,544	1,216,885
Experience Loss	6/30/2009	152,659,572	80,992,015	13.0	15,455,238	8,199,622
Assumption Change	6/30/2009	89,754,662	49,704,543	13.0	9,086,752	5,032,082
Experience Loss	6/30/2010	100,810,203	54,435,035	14.0	9,633,485	5,201,845
Assumption Change	6/30/2010	64,749,326	36,899,621	14.0	6,187,485	3,526,150
Experience Gain	6/30/2011	(150,917,142)	(95,476,366)	15.0	(13,681,098)	(8,655,223)
Assumption Change	6/30/2011	22,970,927	32,700,388	19.0	1,752,727	2,495,103
Experience Loss	6/30/2012	86,669,849	46,657,644	16.0	7,485,885	4,029,934
Assumption Change	6/30/2012	58,179,549	49,556,942	20.0	4,284,215	3,649,265
7/1/2012 UAL Payment		16,714,426	27,938,444			
Total		$ 346,110,727	$ 380,657,819		$ 28,462,168	$ 36,730,529

SECTION IV
CONTRIBUTIONS

Table IV-2 below shows the division of the UAL payments between Police and Fire and between the members and the City.

Table IV-2

UAL Amortization Payments

Source	Police Member	Police City	Police Total	Fire Member	Fire City	Fire Total
1996 Ben Improvement	$ 110,403	$ 0	$ 110,403	$ 67,790	$ 0	$ 67,790
UAL	0	(371,948)	(371,948)	0	(228,384)	(228,384)
Experience Loss	0	3,342,389	3,342,389	0	2,052,296	2,052,296
Police Ben Improvement	0	4,418,842	4,418,842	0	0	0
Rate Increase Delay	28,170	0	28,170	0	0	0
Fire Ben Improvement	0	0	0	0	3,590,038	3,590,038
Experience Gain	0	(9,283,522)	(9,283,522)	0	(5,700,273)	(5,700,273)
Assumption Change	0	2,158,231	2,158,231	0	1,325,198	1,325,198
Experience Loss	0	14,655,860	14,655,860	0	8,999,000	8,999,000
Assumption Change	0	8,747,617	8,747,617	0	5,371,217	5,371,217
Experience Loss	0	9,191,537	9,191,537	0	5,643,793	5,643,793
Assumption Change	0	6,018,285	6,018,285	0	3,695,350	3,695,350
Experience Gain	0	(13,838,932)	(13,838,932)	0	(8,497,389)	(8,497,389)
Assumption Change	0	2,631,831	2,631,831	0	1,615,999	1,615,999
Experience Loss	0	7,134,865	7,134,865	0	4,380,954	4,380,954
Assumption Change	0	4,915,352	4,915,352	0	3,018,128	3,018,128
Total	$ 138,573	$ 39,720,408	$ 39,858,981	$ 67,790	$ 25,265,926	$ 25,333,716

SECTION IV
CONTRIBUTIONS

In addition to the UAL payments shown above, members pay 3/11ths of the EA normal cost (excluding reciprocity normal cost) plus their historical share of administrative expenses. Table IV-3 below shows the contribution rates for the 2012-13 and 2013-14 fiscal years for members and the City split between Police and Fire groups. These rates are prior to the reduction of 0.46% for 2012-13 and 0.82% for 2013-14 due to the charge to the SRBR.

Table IV-3

Contribution Rates

	Fiscal Year 2013-14			Fiscal Year 2012-13		
Source	**Retirement**	**COLA**	**Total**	**Retirement**	**COLA**	**Total**
Police - Member						
Normal Cost	8.09%	3.43%	11.53%	7.76%	3.25%	11.01%
UAL	-0.17%	0.29%	0.12%	-0.16%	0.28%	0.12%
Total	7.92%	3.73%	11.65%	7.60%	3.53%	11.13%
Police - City						
Normal Cost	24.33%	10.33%	34.66%	23.50%	9.84%	33.33%
UAL	15.50%	19.82%	35.32%	8.66%	15.03%	23.69%
Total	39.84%	30.15%	69.99%	32.16%	24.87%	57.03%
Fire - Member						
Normal Cost	8.23%	3.39%	11.62%	7.91%	3.21%	11.12%
UAL	-0.19%	0.29%	0.10%	-0.18%	0.27%	0.09%
Total	8.05%	3.67%	11.72%	7.73%	3.48%	11.21%
Fire - City						
Normal Cost	24.71%	10.16%	34.87%	23.89%	9.70%	33.59%
UAL	16.44%	20.16%	36.59%	9.84%	15.46%	25.30%
Total	41.15%	30.32%	71.47%	33.73%	25.16%	58.89%

SECTION IV
CONTRIBUTIONS

Table IV-4 below shows the estimated dollar amounts of the City's contributions assuming contributions are made at the beginning of the fiscal year. These amounts are prior to the reduction of $848,379 for FYE 2013 and $1,492,165 for FYE 2014 due to the charge to the SRBR. To the extent the City's contributions are made after the beginning of the fiscal year, the amounts should be increased at the assumed valuation interest rate (7.50% for 2012-13 and 7.25% for 2013-14).

Table IV-4

Estimated City Contribution Amounts
Beginning of Year

	Fiscal Year 2013-14			Fiscal Year 2012-13		
Source	**Retirement**	**COLA**	**Total**	**Retirement**	**COLA**	**Total**
Police						
Normal Cost	$ 27,364,200	$ 11,613,202	$ 38,977,402	$ 27,587,645	$ 11,550,768	$ 39,138,412
UAL	17,432,279	22,288,130	39,720,408	10,168,734	17,650,436	27,819,169
Total	$ 44,796,478	$ 33,901,332	$ 78,697,810	$ 37,756,378	$ 29,201,203	$ 66,957,582
Fire						
Normal Cost	$ 17,061,163	$ 7,018,036	$ 24,079,200	$ 15,898,903	$ 6,454,762	$ 22,353,665
UAL	11,349,099	13,916,826	25,265,926	6,545,692	10,288,008	16,833,701
Total	$ 28,410,263	$ 20,934,863	$ 49,345,125	$ 22,444,595	$ 16,742,770	$ 39,187,366
Total						
Normal Cost	$ 44,425,363	$ 18,631,238	$ 63,056,601	$ 43,486,548	$ 18,005,530	$ 61,492,077
UAL	28,781,378	36,204,956	64,986,334	16,714,426	27,938,444	44,652,870
Total	$ 73,206,741	$ 54,836,194	$ 128,042,935	$ 60,200,974	$ 45,943,974	$ 106,144,947

SECTION V
ACCOUNTING STATEMENT INFORMATION

Statement No. 25 of the Governmental Accounting Standards Board (GASB) establishes standards for accounting and financial reporting of pension information by public employee retirement systems.

The basic GASB No. 25 disclosure compares the actuarial liability to the actuarial value of assets to determine a funded ratio. The relevant amounts as of June 30, 2011 and June 30, 2012 are presented in Table V-1.

Table V-1

GASB No. 25 Liability

	June 30, 2012	June 30, 2011	% Change
1. Actuarial Liability			
a. Members currently receiving payments	$ 2,281,763,523	$ 2,113,933,225	7.9%
b. Vested terminated and inactive members	28,531,627	26,693,705	6.9%
c. Active members	1,087,496,668	1,021,962,982	6.4%
d. SRBR	32,515,726	33,416,870	-2.7%
e. Total actuarial liability	$ 3,430,307,544	$ 3,196,006,782	7.3%
2. Actuarial value of assets	$ 2,703,538,998	$ 2,685,721,272	0.7%
3. Unfunded actuarial liability	$ 726,768,546	$ 510,285,510	42.4%
4. Ratio of actuarial value of assets to actuarial liability (2 ÷ 1.d)	78.81%	84.03%	-6.2%

Tables V-2 through V-5 are exhibits for use in the Plan's Comprehensive Annual Financial Report (CAFR). The Government Finance Officers Association (GFOA) recommends showing at least 6 years of experience in each of these exhibits. Table V-2 shows the Notes to Required Supplementary Information. Table V-3 presents an analysis of financial experience for the valuation year; Table V-4 presents the Solvency Test which shows the portion of actuarial liability covered by assets; and Table V-5 presents the Schedule of Funding Progress.

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-2
City of San José Police and Fire Department Retirement Plan
Notes to Required Supplementary Information

The information presented in the required supplementary schedules to the Financial Section of the CAFR was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	June 30, 2012
Actuarial funding method	Entry Age Normal
Amortization method	Level percent of pay, closed, layered
Equivalent single amortization period	14.0 Years
Asset valuation method	5 year smoothing of return
Actuarial assumptions:	
Investment rate of return	7.25%
Wage inflation[1]	0.00% for one year and 3.50% thereafter
Cost-of-living adjustments[2]	3.0% per year

The actuarial assumptions used have been recommended by the actuary and adopted by the City of San José Police and Fire Department Plan Board based on the most recent review of plan experience completed in 2011.

The rate of employer contributions is composed of the normal cost and amortization of the unfunded actuarial liability. The normal cost is a level percent of payroll cost which, along with the member contributions, is expected to pay for projected benefits at retirement for each individual plan member. The actuarial liability is that portion of the present value of projected benefits that is not expected to be paid by future employer normal costs or member contributions. The difference between this liability and the assets accumulated as of the same date is the unfunded actuarial liability.

[1] Excludes merit increases.
[2] Cost-of-living adjustments are fixed at 3.0% by the play provision and do not fluctuate with actual inflation.

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-3

Analysis of Financial Experience

Gain or (Loss) in Actuarial Liability Resulting from Differences Between Assumed Experience and Actual Experience

Type of Activity	Gain or (Loss) for Year Ending June 30, 2012	Gain or (Loss) for Year Ending June 30, 2011
Investment income	$ (172,759)	$ (96,473)
Combined liability experience	39,432	278,051
Gain or (loss) during year from financial experience	$ (133,327)	$ 181,578
Non-recurring gain or (loss) items	(107,736)	12,360
Composite gain or (loss) during year	$ (241,064)	$ 193,938

Amounts in thousands

Table V-4

Solvency Test[1]

Valuation Date June 30,	Active Member Contributions (A)	Actuarial Liability For Retirees, Beneficiaries and Other Inactives (B)	Actuarial Liability For Remaining Active Members' Liability (C)	Reported Assets	Portion of Actuarial Liability Covered by Reported Assets (A)	(B)	(C)
2012	$ 276,047	$ 2,342,811	$ 811,450	$ 2,703,539	100%	100%	10%
2011	260,172	2,174,044	761,791	2,685,721	100%	100%	33%
2010	246,356	1,907,931	1,076,169	2,576,705	100%	100%	39%
2009	243,302	1,630,914	1,089,266	2,569,569	100%	100%	64%
2007	227,191	1,240,126	905,069	2,365,790	100%	100%	99%
2005	194,008	1,062,247	771,177	1,983,090	100%	100%	94%

Amounts in thousands

[1] Amounts prior to June 30, 2011 calculated by prior actuary.

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-5[1]

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AL)	Unfunded AL	Funded Ratio	Covered Payroll	Unfunded AL as a % of Covered Payroll
6/30/2005	$ 1,983,090	$ 2,027,432	$ 44,342	97.8%	$ 210,018	21.1%
6/30/2007	2,365,790	2,372,386	6,596	99.7%	227,734	2.9%
6/30/2009	2,569,569	2,963,482	393,913	86.7%	255,223	154.3%
6/30/2010	2,576,705	3,230,456	653,751	79.8%	251,058	260.4%
6/30/2011	2,685,721	3,196,007	510,286	84.0%	190,726	267.5%
6/30/2012	2,703,539	3,430,308	726,769	78.8%	187,959	386.7%

Amounts in thousands

[1] Amounts prior to June 30, 2011 calculated by prior actuary.

APPENDIX A
MEMBERSHIP INFORMATION

Table A-1
City of San Jose Police and Fire Department Retirement Plan
Active Member Data

	June 30, 2012	June 30, 2011	% Change
Total			
Count	1,718	1,735	-1.0%
Average Current Age	41.5	41.3	0.5%
Average Vesting Service	13.6	13.5	0.7%
Annual Expected Pensionable Earnings	$ 187,958,524	$ 190,726,258	-1.5%
Average Expected Pensionable Earnings	$ 109,405	$ 109,929	-0.5%

Table A-2
City of San Jose Police and Fire Department Retirement Plan
Non-Active Member Data

	Count			Average Age		
	June 30, 2012	June 30, 2011	%Change	June 30, 2012	June 30, 2011	%Change
Total						
Retired & Disabled	1,690	1,636	3.3%	64.6	64.3	0.5%
Beneficiaries	252	249	1.2%	64.5	63.7	1.3%
Payee Total	1,942	1,885	3.0%	64.6	64.2	0.6%
Inactives	166	228	-27.2%	40.3	37.3	8.0%

Table A-3
City of San Jose Police and Fire Department Retirement Plan
Non-Active Member Data

	Total Annual Benefit*			Average Annual Benefit*		
	June 30, 2012	June 30, 2011	%Change	June 30, 2012	June 30, 2011	%Change
Total						
Retired & Disabled	$ 145,746,196	$ 136,002,610	7.2%	$ 86,240	$ 83,131	3.7%
Beneficiaries	8,635,092	8,136,035	6.1%	34,266	32,675	4.9%
Payee Total	$ 154,381,289	$ 144,138,645	7.1%	$ 79,496	$ 76,466	4.0%
Inactives**	$ 2,062,960	$ 1,985,944	3.9%	$ 12,427	$ 8,710	42.7%

* Benefits provided in June 30 valuation data

** For Inactives, benefit is calculated based on the data assumptions and methods outlined in Appendix A.

APPENDIX A
MEMBERSHIP INFORMATION

Table A-4
City of San Jose Police and Fire Department Retirement Plan
Distribution of Active Members as of June 30, 2012

	Years of Benefit Service								
Age	**Under 1**	**1 to 4**	**5 to 9**	**10 to 14**	**15 to 19**	**20 to 24**	**25 to 29**	**30 and Up**	**Total**
Under 25	1	1	-	-	-	-	-	-	2
25 to 29	13	32	32	-	-	-	-	-	77
30 to 34	24	65	117	13	-	-	-	-	219
35 to 39	9	40	106	150	18	-	-	-	323
40 to 44	3	17	48	192	200	27	-	-	487
45 to 49	1	1	15	97	144	140	21	-	419
50 to 54	-	-	4	16	47	74	16	-	157
55 to 59	-	-	-	2	13	13	1	-	29
60 to 64	-	-	-	1	2	-	2	-	5
65 to 69	-	-	-	-	-	-	-	-	-
70 and up	-	-	-	-	-	-	-	-	-
Total Count	51	156	322	471	424	254	40	-	1,718

Table A-5
City of San Jose Police and Fire Department Retirement Plan
Distribution of Active Members as of June 30, 2012

	Average Expected Salary Years of Benefit Service								
Age	**Under 1**	**1 to 4**	**5 to 9**	**10 to 14**	**15 to 19**	**20 to 24**	**25 to 29**	**30 and Up**	**Total**
Under 25	$ 78,451	$ 80,191	$ -	$ -	$ -	$ -	$ -	$ -	$ 79,321
25 to 29	82,429	89,743	99,813	-	-	-	-	-	92,693
30 to 34	83,904	92,673	104,708	106,941	-	-	-	-	98,989
35 to 39	82,181	93,041	105,750	108,029	115,986	-	-	-	105,148
40 to 44	91,008	91,745	105,695	108,925	115,325	121,672	-	-	111,232
45 to 49	80,481	105,954	106,510	109,593	114,145	120,954	129,161	-	115,746
50 to 54	-	-	105,660	113,057	116,110	114,967	128,949	-	116,302
55 to 59	-	-	-	109,217	112,703	127,146	143,064	-	119,984
60 to 64	-	-	-	98,562	114,309	-	143,802	-	122,957
65 to 69	-	-	-	-	-	-	-	-	-
70 and up	-	-	-	-	-	-	-	-	-
Avg. Salary	$ 83,468	$ 92,071	$ 104,807	$ 108,842	$ 114,954	$ 119,603	$ 130,156	$ -	$ 109,405

APPENDIX A
MEMBERSHIP INFORMATION

Table A-6
City of San Jose Police and Fire Department Retirement Plan
Retirees and Disabled by Attained Age and Benefit Effective Date
As of June 30, 2012

Benefit Effective	Age										
	Under 50	50 to 54	55 to 59	60 to 64	65 to 69	70 to 74	75 to 79	80 to 84	85 to 89	90 and up	Total
Pre-1992	1	1	3	9	30	36	76	61	26	5	248
PYE 1992	-	-	2	-	5	9	6	2	1	-	25
PYE 1993	-	1	2	-	6	39	25	1	-	-	74
PYE 1994	1	1	-	3	11	21	8	2	-	-	47
PYE 1995	-	1	1	2	29	25	5	1	-	-	64
PYE 1996	-	2	-	1	17	21	2	-	-	-	43
PYE 1997	1	-	1	4	29	25	3	1	-	-	64
PYE 1998	-	1	2	8	42	19	1	-	-	-	73
PYE 1999	-	-	2	9	31	14	2	-	-	-	58
PYE 2000	-	1	-	13	24	10	1	-	-	-	49
PYE 2001	1	1	3	20	28	4	1	-	-	-	58
PYE 2002	1	2	1	19	27	1	-	-	-	-	51
PYE 2003	2	2	8	32	31	3	-	-	-	-	78
PYE 2004	-	-	5	31	10	2	-	-	-	-	48
PYE 2005	1	3	17	38	16	2	1	-	-	-	78
PYE 2006	-	-	12	11	13	1	-	-	-	-	37
PYE 2007	3	2	28	26	7	-	-	-	-	-	66
PYE 2008	4	-	33	21	4	-	-	-	-	-	62
PYE 2009	4	19	73	46	11	2	-	-	-	-	155
PYE 2010	2	40	73	20	2	-	-	-	-	-	137
PYE 2011	5	57	42	6	-	1	-	-	-	-	111
PYE 2012	7	37	17	2	1	-	-	-	-	-	64
Total	33	171	325	321	374	235	131	68	27	5	1,690

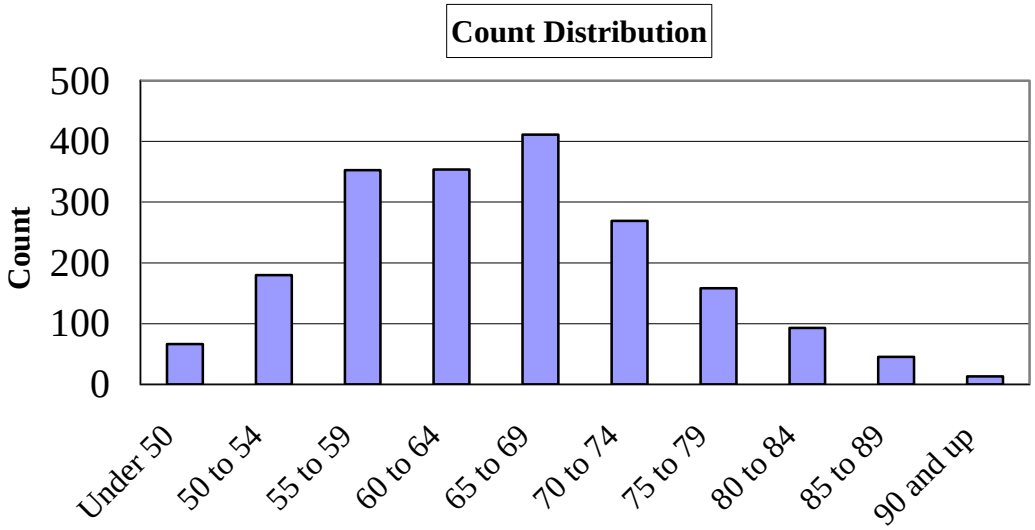
Average Age at Retirement/Disability	52.7
Average Current Age	64.6
Average Annual Pension	$ 86,240

APPENDIX A
MEMBERSHIP INFORMATION

Table A-7
City of San Jose Police and Fire Department Retirement Plan
Distribution of Retirees, Disabled Members, and Beneficiaries as of June 30, 2012

Age	Count
Under 50	66
50 to 54	180
55 to 59	353
60 to 64	354
65 to 69	411
70 to 74	269
75 to 79	158
80 to 84	93
85 to 89	45
90 and up	13
Total	1,942

Chart A-1

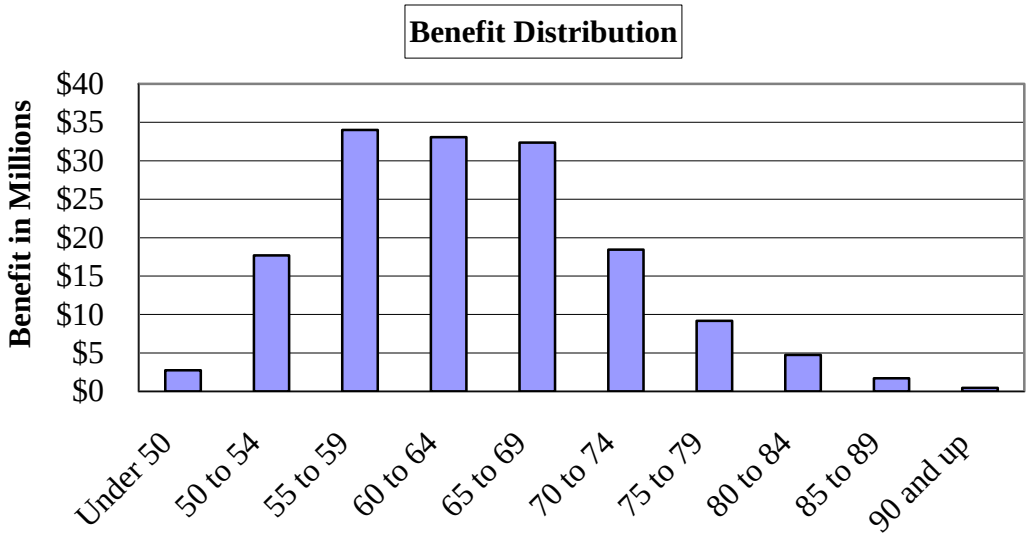


APPENDIX A
MEMBERSHIP INFORMATION

Table A-8
City of San Jose Police and Fire Department Retirement Plan
Distribution of Retirees, Disabled Members, and Beneficiaries as of June 30, 2012

Age	Annual Benefit
Under 50	$ 2,754,660
50 to 54	17,703,367
55 to 59	34,005,414
60 to 64	33,042,733
65 to 69	32,338,033
70 to 74	18,460,265
75 to 79	9,170,635
80 to 84	4,743,289
85 to 89	1,720,301
90 and up	442,592
Total	$ 154,381,289

Chart A-2



APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

A. Actuarial Assumptions

1. Investment Return Assumption

Assets are assumed to earn 7.25% net of investment expenses.

2. Salary Increase Rate

Wage inflation component is assumed to be 0.00% for FYE 2014, and 3.50% thereafter.

In addition, the following merit component is added based on an individual member's years of service:

Table B-1
Salary Merit Increases

Years of Service	Merit/ Longevity
0	8.00%
1	7.25
2	6.50
3	5.75
4	5.00
5	4.50
6	4.00
7	3.50
8	3.00
9	2.50
10+	2.25

3. Family Composition

Percentage married is shown in the following Table B-2. Women are assumed to be three years younger than men.

Table B-2
Percentage Married

Gender	Percentage
Males	85%
Females	85%

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

4. Rates of Termination

Sample rates of termination are shown in the following Table B-3.

Table B-3
Rates of Termination

Service	Termination
0	6.00%
1	2.50
2	1.50
3-4	1.00
5-10	0.75
11+	0.40

* Termination rates do not apply once a member is eligible for retirement

75% of terminating employees are assumed to subsequently work for a reciprocal employer and receive 3.5% pay increases per year.

5. Rates of Disability

Sample disability rates of active participants are provided in Table B-4.

Table B-4
Rates of Disability at Selected Ages

Age	Police	Fire
25	0.09%	0.09%
30	0.13	0.13
35	0.20	0.20
40	0.31	0.31
45	0.51	0.51
50	2.14	2.25
55	9.08	8.50
60	10.00	17.25
65	10.00	20.00

100% of disabilities are assumed to be duty related.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

6. Rates of Mortality for Healthy Lives

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the male and female RP-2000 combined employee and annuitant mortality tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back three years for males and no setback for females.

Table B-5
Rates of Mortality for Active and Retired Healthy Lives at Selected Ages

Age	Male	Female
25	0.0308%	0.0180%
30	0.0363	0.0239
35	0.0535	0.0425
40	0.0860	0.0607
45	0.1099	0.0957
50	0.1491	0.1412
55	0.2179	0.2507
60	0.3954	0.4808
65	0.7529	0.9231
70	1.4103	1.5923
75	2.3454	2.5937
80	4.1153	4.2767
85	7.4274	7.2923
90	12.8097	12.7784
95	21.0194	19.0654

It is assumed that 50% of active deaths are service related.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

7. Rates of Mortality for Retired Disabled Lives

Mortality rates for disabled retirees are based on the male RP-2000 combined employee and annuitant mortality table. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back two years.

Table B-6
Rates of Mortality for Disabled Lives at Selected Ages

Age	Mortality
50	0.1583%
55	0.2383
60	0.4488
65	0.8695
70	1.5521
75	2.6125
80	4.6195
85	8.2794
90	14.3228
95	22.6746

8. Rates of Retirement

Rates of retirement are based on age and service according to the following Table B-7.

Table B-7
Rates of Retirement by Age

	Police		Fire	
Age	<30 Years	30+ Years	<30 Years	30+ Years
50 - 54	30.00%	50.00%	17.00%	17.00%
55 - 59	30.00	50.00	17.00	25.00
60 - 64	50.00	100.00	17.00	25.00
65 - 69	50.00	100.00	35.00	35.00
70 & over	100.00	100.00	100.00	100.00

These retirement rates apply only to those eligible for unreduced benefits.

9. Administrative Expenses

$3.0 million added to normal cost. The administrative expenses are assumed to increase with wage inflation. Historically, the administrative expenses were assumed to reduce

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

the investment return assumption by 10 basis points which resulted in a higher Normal Cost. To maintain the same historic division of member and City contributions for administrative expenses for this valuation, members were allocated a portion of the administrative expenses equal to 3/11ths of the difference in Normal Cost that a 10 basis point reduction in the investment return assumption would cause.

10. SRBR

0.22% of the market value of assets is added to the normal cost as the assumed average annual transfer of excess earnings to the SRBR.

11. Changes Since Last Valuation

The investment return assumption was reduced from 7.50% to 7.25% as adopted by the Board in December 2012.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

B. Actuarial Methods

1. Actuarial Funding Method

The Entry Age actuarial cost method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal cost. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

2. Asset Valuation Method

For the purposes of determining the employer's contribution, we use an actuarial value of assets. The asset smoothing method dampens the volatility in asset values that could occur because of the fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process. Assets are assumed to be used exclusively for the provision of retirement benefits and expenses.

The actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return (7.50% for 2011-12, 7.75% for 2010-11, 8.00% for prior years) over a five-year period. The dollar amount of the expected return on the market value of assets is determined using the actual contributions and benefit payments during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss.

Finally, the actuarial value of assets is restricted to a corridor between 80 percent and 120 percent of the market value of assets.

Prior to the June 30, 2011 valuation, the actuarial value of assets was reduced by the SRBR and no liability was reported for the SRBR. After the June 30, 2011 valuation, the SRBR remains a part of the actuarial value of assets and is also added to the actuarial liability.

3. Amortization Method

Actuarial gains and losses and plan changes are amortized as a level percentage of pay assuming 3.5% annual growth in payroll over a 16-year period beginning with the valuation date in which they first arise. Changes in methods and assumptions are amortized as a level percentage of pay assuming 3.5% annual growth in payroll over a 20-year period (16 years for changes prior to June 30, 2011) beginning with the valuation date on which they are effective.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

1. Membership Requirement

Participation in the plan is immediate upon the first day of employment with the City of San José as a police officer or fire fighter except for the following:

- Independent contractors,
- Person in City service principally for training or educational purposes,
- Auxiliary or voluntary police officers or fire fighters,
- Part-time or non-salaried employees, and
- Employees receiving credit in any other retirement or pension system.

2. Final Compensation

The highest twelve consecutive months of compensation in covered employment. However, in determining Final Compensation, no compensation in the last 12 months of employment that exceeds 108% of compensation during the 12 months immediately proceeding the last 12 month shall be considered. Compensation excludes overtime pay and expense allowances.

3. Credited Service

Years of service in covered employment plus service purchased for military leave of absence, Federated service, and unpaid leaves of absence.

4. Contributions

a. Member:

The amount needed to fund 3/11 of normal cost calculated under the Entry Age actuarial cost method plus the amortization payment on the February 4, 1996 benefit improvement. For Police members, there is an additional amortization payment for member contributions not made for the last 6 months of 2006.

b. Employer:

The Employer contributes the remaining amounts necessary to fund the Plan in accordance with the Board's funding policy.

5. Service Retirement

Eligibility

Age 55 with 20 years of service, age 50 with 25 years of service, age 70 with no service requirement, or any age with 30 years of service. Reduced benefits are also available at age 50 with 20 years of service.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

Benefit

Police: 2.5% of Final Compensation for each year of credited service up to 20 years plus 4.0% of Final Compensation for each year of credited service in excess of 20, subject to a maximum of 90% of Final Compensation.

Fire: For members with less than 20 years of service, 2.5% of Final Compensation for each year of credited service. For members with 20 or more years of service, 3.0% of Final Compensation for each year of service, subject to a maximum of 90% of Final compensation.

6. Service Connected Disability Retirement

Eligibility

No age or service requirement.

Benefit

Police: 50% of Final Compensation plus 4.0% of Final Compensation for each year of credited service in excess of 20, subject to a maximum of 90% of Final Compensation.

Fire: For members with less than 20 years of service, 50% of Final Compensation. For members with 20 or more years of service, 3.0% of Final Compensation for each year of service, subject to a maximum of 90% of Final Compensation.

7. Non-Service Connected Disability Retirement

Eligibility

Two years of service.

Benefit

For members with less than 20 years of service, 32% of Final Compensation plus 1% of Final Compensation for each year of service in excess of two. For members with 20 or more years of service, the benefit amount equals the amount that would be calculated under the service retirement formula.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

8. Non-Service-Connected Death

Less than 2 Years of Service:
Lump sum benefit equal to the greater of accumulated employee contributions with interest or $1,000.

Disabled retirees or members ineligible for service retirement:
Spouse receives 24% of Final Compensation plus 0.75% of Final Compensation for each year of service in excess of two, subject to a maximum of 37.5% of Final Compensation. If a member has eligible dependent children, an additional benefit is payable as follows:

1 Child:	25% of Final Compensation
2 Children:	37.5% of Final Compensation
3+ Children:	50% of Final Compensation

The total benefit payable to a family is limited to 75% of Final Compensation.

If a member does not have a spouse or eligible dependent children, a lump sum benefit equal to the greater of accumulated employee contributions with interest or $1,000.

Service retirees or members eligible for service retirement:
Spouse receives the greater of 37.5% of Final Compensation or 50% of the member's service retirement benefit, subject to a maximum of 42.5% of Final Compensation for Police and 45% of Final Compensation for Fire. Eligible dependent children will receive the same benefit as defined under the non-service connected death for disabled retirees or members ineligible for service retirement. The total benefit payable to a family is limited to 75% of Final Compensation.

9. Service-Connected Death

Spouse receives the greater of 37.5% of Final Compensation or 50% of the member's service retirement benefit, subject to a maximum of 42.5% of Final Compensation for Police and 45% of Final Compensation for Fire. If a member has eligible dependent children, an additional benefit of 25% of Final Compensation is payable for each eligible dependent child. The total benefit payable to a family is limited to 75% of Final Compensation.

10. Termination Benefits

Less than 10 Years of Service:
Lump sum benefit equal to the accumulated employee contributions with interest at 2% per annum.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

10 or more years of credited service:
The amount of the service retirement benefit, payable at the later of age 55 or 20 years from date of membership.

11. Post-retirement Cost-of-Living Benefit

Benefits are increased every February 1 by 3.0%.

12. Supplemental Retiree Benefit Reserve

Annual transfer:	10% of earnings in excess of the actuarially assumed rate on the actuarial value of assets are transferred to the SRBR and added to its principal.
Interest credit:	Interest on the SRBR balance equal to the actual rate of earnings on the actuarial value of assets, but not less than zero.
Benefit:	Board shall make annual distributions from the SRBR to provide supplemental benefits to retirees and beneficiaries except that no distributions can be made during calendar years 2010, 2011 and 2012, prior to June 30, 2012. In addition, distributions may not reduce the principal of the SRBR.
Charge to Principal:	If the City's contribution rate increases due to poor investment earnings, 10% of the increased contribution for a one-year period is deducted from the SRBR principal, subject to a maximum deduction of 5% of the SRBR principal.

Note: The summary of major plan provisions is designed to outline principal plan benefits. If the Department of Retirement Services should find the plan summary not in accordance with the actual provisions, the actuary should immediately be alerted so the proper provisions are valued.

APPENDIX D
GLOSSARY OF TERMS

1. Actuarial Liability

The Actuarial Liability is the difference between the present value of all future Plan benefits and the present value of total future normal costs. This is also referred to by some actuaries as the "accrued liability" or "actuarial accrued liability".

2. Actuarial Assumptions

Estimates of future experience with respect to rates of mortality, disability, turnover, retirement rate or rates of investment income and salary increases. Demographic actuarial assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

3. Accrued Service

Service credited under the Plan which was rendered before the date of the actuarial valuation.

4. Actuarial Equivalent

A single amount or series of amounts of equal actuarial value to another single amount or series of amounts, computed on the basis of appropriate actuarial assumptions.

5. Actuarial Funding Method

A mathematical budgeting procedure for allocating the dollar amount of the actuarial present value of a retirement Plan benefit between future normal cost and actuarial accrued liability. Sometimes referred to as the "actuarial funding method."

6. Actuarial Gain (Loss)

The difference between actual experience and actuarial assumption anticipated experience during the period between two actuarial valuation dates.

7. Actuarial Present Value

The amount of funds currently required to provide a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest, and by probabilities of payment.

APPENDIX D
GLOSSARY OF TERMS

8. Amortization

Paying off an interest-discounted amount with periodic payments of interest and principal—as opposed to paying off with a lump sum payment.

9. Annual Required Contribution (ARC) under GASB 25

The Governmental Accounting Standards Board (GASB) Statement No. 25 defines the Plan Sponsor's "Annual Required Contribution" (ARC) that must be disclosed annually. The SJPF Employer computed contribution rate for FYE 2014 meets the parameters of GASB 25.

10. Normal Cost

The actuarial present value of retirement Plan benefits allocated to the current year by the actuarial funding method.

11. Set back/Set forward

Set back is a period of years that a standard published table (i.e. mortality) is referenced backwards in age. For instance, if the set back period is 2 years and the participant's age is currently 40, then the table value for age 38 is used from the standard published table. It is the opposite for set forward. A Plan would use set backs or set forwards to compensate for mortality experience in their work force.

12. Unfunded Actuarial Liability (UAL)

The unfunded actuarial liability represents the difference between actuarial liability and the actuarial value of assets. This value is sometimes referred to as "unfunded actuarial accrued liability."

Most retirement Plans have unfunded actuarial liabilities. They typically arise each time new benefits are added and each time experience losses are realized.

The existence of unfunded actuarial liability is not in itself an indicator of poor funding, Also, unfunded actuarial liabilities do not represent a debt that is payable today. What is important is the ability of the plan sponsor to amortize the unfunded actuarial liability and the trend in its amount (after due allowance for devaluation of the dollar).